

“JFSA’s Strategic Priorities in 2022”

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1. Introduction

Good afternoon, everyone. I am Junichi Nakajima, Commissioner of JFSA, Japan’s Financial Services Agency.

It is my great pleasure to have been given this opportunity to deliver my remarks to the distinguished members of the International Bankers Association of Japan. I would also like to express my sincere gratitude to the IBA Secretariat for organizing this event.

Due to Covid-19, the Japanese economy has been in a difficult situation. In the short term, the Government of Japan will take all necessary risk management measures against the coronavirus. In the short to medium term, taking the pandemic for granted, the Government will aim to resume economic activity to a pre-crisis level as early as possible.

Last November, the Kishida Administration created an economic policy package to envision a novel concept, called a “New Form of Capitalism” to achieve a virtuous cycle of growth and distribution as well as to redefine the post-Covid-19 society.

During the pandemic, permanent societal changes, such as digitalization, have taken place, which could be seen as a driver for future economic growth.

Most importantly, this “New Form of Capitalism” cannot materialize without capital markets. The capital markets are essential as a vehicle to attract

investment from all around the world, source it to Japanese firms and, ultimately, achieve economic growth.

How does this relate to income distribution? For self-sustaining economic growth, corporate profits also need to be passed on to employees as wages or investment in human capital, which will eventually create demand for further economic growth. This is how growth and distribution complement each other.

2. International Financial Center Initiatives

Now I will talk about our International Financial Center Initiatives. Where money flows within the investment chain, the asset management sector has an active role to play. The sector gives firms incentives to increase their corporate value, thereby enhancing the efficient allocation of capital.

Moreover, asset management is crucial from a national wealth perspective. Japan's household financial assets soared to a record high at 2,000 trillion yen, or around 18 trillion US dollars, half of which is held in cash and bank deposits. Amid ongoing demographic changes as well as diversifying life and work styles among individuals, there is a growing need to start investment to build assets in a stable manner.

For these purposes, the JFSA will aim to increase the sophistication of the asset management sector by welcoming talented investment firms and professionals from all around the globe. This is why we launched "International Financial Center Initiatives" in 2020. The Initiatives continue to be a priority for the current administration as shown by Prime Minister Kishida's statement at the Parliamentary session last year that "The Government of Japan will continue to move forward with the International Financial Center Initiatives."

Then, we want to know what Japan's strengths are. To name a few:

- 1) Political stability based on democracy and the rule of law;

- 2) Good public security;
- 3) A large domestic economy and stock markets; and,
- 4) Untapped household financial assets of 18 trillion US dollars.

Of course, we have identified our own weaknesses as well. Most notably, these are:

- 1) A larger tax burden imposed on businesses and individuals;
- 2) Administrative services available only in Japanese; and,
- 3) A strict visa policy enforced by the immigration authority.

The new policy package aims to address these weaknesses to create a more favorable business environment for overseas asset managers.

- Concerning tax, we worked on corporate income tax, personal income tax and inheritance tax to lower the tax burden of overseas investment professionals.
- Regarding financial regulation, we launched the “Financial Market Entry Office” last January to provide professional English support from pre-application consultation to registration and supervision. No communication and no materials in Japanese are necessary.

During the past year since its opening, despite the ongoing pandemic, five overseas asset managers have completed the all-in-English registration process. It took 3 months or less in all cases, which, I believe, is comparable to other international financial centers.

Moreover, new, simple market entry schemes for overseas asset managers also started last November.

- Concerning immigration policy, new reform has made it easier for overseas investment professionals to obtain “Highly-Skilled Foreign Professional” status. This status comes with several preferential treatments.

Going forward, I wish that international travel will return to normal soon. I am looking forward to welcoming many overseas investment professionals to Japan.

The JFSA will do its best to provide support.

Needless to say, my focus is not just on asset management but also on banking and securities. Easing the firewall regulation is one of our most recent efforts. For example, the new reform will enable banks and securities entities to share the information of domestic corporate clients, such as listed companies, within their financial group without the clients' prior consent.

3. Sustainable Finance

Now, let me speak a little about sustainable finance. Last year, the concept of sustainability attracted greater attention than ever before. Financial institutions and capital markets have many roles to play in this field too.

First, the response to climate change requires the economy and society as a whole to become carbon-neutral. For this purpose, support from financial markets is needed for the transition of structures in industry and society. We encourage market participants, including financial institutions, to work to ensure that companies' de-carbonization efforts are appropriately evaluated and smoothly financed.

To leverage the accelerating global trend toward de-carbonization, our aim is to attract capital for growth from home and abroad to Japanese companies. To this end, we are enhancing companies' disclosure: the Revised Corporate Governance Code now requires listed companies on the Prime Market of the Tokyo Stock Exchange to enhance their climate-related financial disclosures based on the TCFD recommendations or an equivalent international framework.

We will also help maximize market functions by assisting Japan Exchange Group in establishing an information platform. Through these initiatives, the JFSA is aiming to make Japan a "Green International Financial Center," as a hub for the transaction of ESG-related bonds.

In addition to these Green initiatives, it is critical to mobilize funding to solve social challenges. Last October, the JFSA published the “Social Bond Guidelines,” aiming to ensure the credibility of the social benefits of bonds while reducing the cost to issuers. For the time being, public sector issuance has taken the lead in Japan. With the publication of the new Guidelines, we are looking forward to the wider issuance of social bonds by the private sector as well.

Furthermore, the Tokyo Stock Exchange has been actively working on its market reforms, including the transition to a new market structure this April and the extension of trading hours in 2024.

4. Closing

In conclusion, capital markets need to play leading roles in accelerating Japanese economic growth. The JFSA’s priority is to strengthen Japan’s roles as an International Financial center and to enhance the attractiveness of the Japanese market. In this context, the JFSA has high expectations of capital and businesses from overseas.

Our efforts are just halfway down the road. The JFSA will continue to transform our policies based on the needs identified through continuous discussion with industry participants, like today. I appreciate your continued support. This concludes my speech. Thank you very much for listening.